

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

February 4, 2005

IN RE:

**AUDIT OF NASHVILLE GAS COMPANY'S
INCENTIVE PLAN ACCOUNT FOR THE PLAN
YEAR ENDED JUNE 30, 2003**

**DOCKET NO.
03-00489**

**ORDER ACCEPTING COMPANY'S
PROPOSED IMPROVEMENTS TO COMPANY'S IPA**

This matter came before Director Deborah Taylor Tate, Director Sara Kyle and Director Ron Jones of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on September 13, 2004 for consideration of proposed revisions to the Incentive Plan Account ("IPA") of Nashville Gas Company ("Company").

Background

On August 22, 2003, Company submitted an annual IPA report to the TRA for the twelve months ended June 30, 2003. The Authority's Energy and Water Division ("Staff") completed a compliance audit of the IPA report and filed its Audit Report on March 29, 2004

At a regularly scheduled Authority Conference on April 26, 2004, the panel considered the Audit Report. A majority of the panel voted to approve and adopt Finding Nos. 3, 4, and 5 of the Audit Report, as reflected in the order dated October 1, 2004. The majority also voted to direct Company to file proposals to remedy the weaknesses in IPA practices, which were identified as Finding Nos. 1 and 2 and as the areas of concern in Section VI of the Audit Report.

On May 5 and May 17, 2004, the TRA issued Notices of Filing memorializing the panel's directive to Company to submit proposals. On June 17, 2004, Company filed a letter including the requested proposals. Staff submitted a *Staff Reply to Nashville Gas Company's Proposals* ("Staff Reply") on August 5, 2004. On August 13, 2004, Company filed a response setting forth its disagreement with Staff's position on several issues and providing a summary of Company's position on the remaining disputed issues.

Proposed Improvements to IPA Processes

As reflected in Company's submissions and the *Staff Reply*, Company and Staff reached agreement on several issues related to Finding Nos. 1 and 2 and the areas of concern identified in the Audit Report. They concluded that the IPA processes could be improved, and Company proposed modifications to the way in which it executes its Incentive Plan. Company and Staff proposed that the IPA processes be clarified and improved as follows for Company's ongoing and future execution of the Incentive Plan:

1. **Asset Management Request for Proposal (RFP) Process:** Company will:
 - a. implement an archival process to maintain lists of RFP recipients for audit purposes.
 - b. require that all Asset Management bids are documented in writing, either before or after they are made, to ensure that Staff has a complete audit trail of the RFP bid process.
 - c. publish an annual notice in Gas Daily, or a similar national industry publication, informing the public of the fact that Nashville Gas periodically engages in Asset Management transactions for its Tennessee capacity, pursuant to an RFP process, and providing notice of whom to contact at Company to seek participation in that process.
2. **Records Retention:** Company will comply with NARUC document retention standards.
3. **Wholesale Price Index:** Company will continue reporting its prices to Gas Daily and Inside FERC, with sufficient documentation to allow verification by Staff during future audits.
4. **Reserve Capacity Margin:** Company will share with Staff the information utilized by Company to determine its current and future needs in conjunction with its annual three-year supply plan review process.

Remaining Unresolved Issues

Company and Staff were not able to reach agreement on three other pending issues: whether Staff should have additional oversight of Company's RFP bid process, whether the asset management fees should be included in Company's Incentive Plan tariff, and whether Staff should be permitted to utilize an outside consultant to assist in future IPA audits, the costs to be recovered through Company's Actual Cost Adjustment account

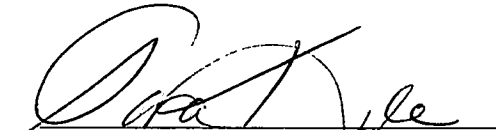
September 13, 2004 Authority Conference


At the September 13, 2004 Authority Conference, the panel voted to accept the proposed improvements and amend Company's IPA to include the changes agreed to by Company and Staff. The majority declined to make a determination regarding the remaining unresolved issues¹

IT IS THEREFORE ORDERED THAT:

Company shall modify the way it executes its IPA in accordance with the proposed improvements to the IPA processes set forth herein.


Deborah Taylor Tate, Director


Sara Kyle, Director


Ron Jones, Director

¹ Director Jones did not vote with the majority. Although he agrees that the Incentive Plan Account should be amended to reflect agreements between Nashville Gas Company and the Authority Audit Staff, consistent with his position expressed during the April 26, 2004 Authority Conference, he explained that the three unresolved issues related to Audit Staff oversight of the RFP process, the inclusion of asset management fees in the Incentive Plan Account, and payment for the use of a consultant should be considered further in a contested case.